

UNRAVELING THE LINK BETWEEN ENVIRONMENTAL FACTORS AND ORGANIZATIONAL IMPROVISATION

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ABSTRACT

Improvisation is currently considered to be novel in the business activity. Due to limited study on improvisation in Malaysian businesses, this paper aims to investigate the influence of environmental factors towards the organizational improvisation. Specifically, organizational resources which include tangible and intangible resources as well as the external environmental factors in which comprise of market and technological turbulence and competitive intensity are the factors determined to influence organizational improvisation. By examining 106 small medium-sized enterprises (SMEs) in northern region Malaysia, we found that internal and external environmental factors were able to influence the organizational improvisation. This finding outlines that the SME entrepreneurs should highlight the substantial effect of external and internal factors which are able to influence the spontaneity and creativity in decision making and execution process in sustaining the firm performance. Theoretically and in practice, this study on improvisation in the business represents potentially rich addition to the vocabulary of entrepreneurial decisions and actions.

Keywords : *internal and external environmental factors; organizational improvisation*

1. Introduction

Small and medium enterprises (SMEs) are thriving in today's economy in Malaysia. It is evidently proves that SMEs contribution to gross-domestic product (GDP) has increased from 29.4% in 2005 to 33.1% in 2013 (SME Corporation, 2014). Essentially, 99.2% of the total entrepreneurs in Malaysia are the SMEs dealer that have been registered and contributed at 32% of Malaysia GDP (Asri & Darawi, 2012). SMEs in Malaysia involves in a diverse range of industries, such as manufacturing, services, agriculture mining and quarrying and others (SME Corporation, 2014).

However, there are several matters that need to be considered in which the stereotype image of an SME that is often labeled as short of cash, focused marketplace operation, average number of customers, and organizational survival can denote the poor management system of the resources. In this current situation, many of these firms are progressively faced with on-going challenge of competition, technological and market (Morgan, Kaleka, & Katsikeas, 2004; Morgan & Strong, 2003) which require constant change and innovation (Eisenhardt, 1989). Failure to survive in the market may harm the competency of the firms. The SMEs should make a creative move and spontaneously reflect on the frequent changing environment in order to sustain in this business

world. Due to this matter, the tendency for organizational improvisation in their business process is likely to be necessary.

Improvisation in businesses could be viewed as similar to jazz and theatre improvisation where the business strategy and a set of policies/actions/decisions (script or scores) could be an immediate outcome of interactions with internal and external environmental forces. The interactions of internal forces can be depicted in the scenario of organizational structure that explains the functions and interactions of employees (musicians or actors), which have specific roles to be played, such as in marketing, production or administrative work (saxophonists, guitarists or heroes, heroines), and the role of the CEO (composer) who has to ensure the strategy unfolds as intended (Crossan & Sorrenti, 1997). Meanwhile, the competitors, customers, retailers, and shareholders are the possible external factors that significantly affect the improvisational process. This scenario therefore depicts *the interaction system* which emphasizes *collective improvisation* (Moorman & Miner, 1998).

2. Literature Review

Organizational improvisation structures and techniques are the methodology that link creativity and innovation (James & William, 1980). In fact, organizational improvisation can be summarized as an action taken in real time situations where it involves a high degree of spontaneity, creativity and intuitive insight by individuals, groups or the whole organization (Weick, 1993; Hatch, 1997; Crossan, 1998; Moorman & Miner, 1998; Baker, Miner, & Eesley, 2003; Vera & Crossan, 2005). Furthermore, it is important to take note that improvisation is a conscious choice rather than something that occurs by chances. Organizational improvisation has been said to be able to add value to the organization, in terms of change management, adopting best practices, and adding flexibility and innovation to the organization (Kamoche, Cunha, & Cunha, 2002; Leybourne, 2006). Therefore, it is for the organization's benefit to understand how organizational improvisation occurs and how it is used in daily activities. Organizational improvisation is a relatively new area of research in management (Kamoche & Cunha, 2001).

In the previous literature, Rumelt (1987), and Amit and Schoemaker (1993) suggested that a firm resources and capabilities generate rents, partially due to the inimitability that they generate. But, current entrepreneurs have difficulty in identifying, developing, and deploying the required resources and capabilities due to some uncertainty, complexity and inter-organizational conflict. Both previous literature and critics to the traditional resource-based view claimed that possession of certain resources does not guarantee to generate sustainable competitive advantage. Instead, resources must be acquired, accumulated, bundled and leveraged in order to realize or maximize the full potential of resources. Therefore, this implies that resources is required to be managed effectively (Sirmon, Hitt, & Ireland, 2007).

Entrepreneurs themselves do not control all required resources to achieve its organizational objectives. Improvisation is needed to be considered in order to obtain resources from its environment which is sometime controlled by outside suppliers. Hence, it is uncertain whether an organization would obtain its required resources in which given the unpredictable nature of the environment. This idea has several implications, for instance, the firms tend to serve suppliers who provide them with resources and that organizations often reduce their freedom by building relations to others in order to lower the uncertainty. Since the customers and owners are often become the key stakeholders that provide the firm with resources, the significant control on what decisions are

being taken and how the resources are allocated inside a firm with certain improvisation is being concerned.

Intangible resources are associated with both intelligence and experience. Affective resources are explained as invoking a feeling of transcendence and emotional interconnectedness without prior interaction and self-disclosure. The social resources, for example, explained the social structures between the members in performing improvisation. Furthermore, Leybourne (2006) demonstrated that improvisation associates with organization knowledge management and many authors are trying to explore the benefits from that relationship. Organizations need to learn to make an adaptation in order to sustain competitive advantage and knowledge adaptation is one of the components of improvisation. This need for adaption to the circumstances moves the focus in organizations away from processes, routines and structures and instead, implies the need to focus on human capital, the intangible resources. As a conclusion, to create something new and useful in an unplanned situation, one would have to be creative and applying as well as maximizing the resources at their disposal in certain situation (Baker, Miner, & Eesler, 2003).

According to Foreman (2014), the structures and techniques of improvisation are the methodology that is connecting creativity and innovation. The role of external factors is also undeniable which could affect the element of creativity and innovation. For instance, Brown and Eisenhardt (1997) states an example that high-tech firms are more flexible and efficient, and the firms have the capability to quickly create high-quality and innovative products that respond to market shift. From this statement, the element of creativity and spontaneous in improvisation is being adopted in creating high-quality and innovative product and the firm is also not left behind to respond with environments especially in terms of market shift and technological turbulence. Referring to Rothaermel (2008), competitive intensity is determined by how difficult the organization to compete among their rivals to attain market share from each other (Rothaermel, 2008) and the competitive weapon involves the application of technology in the organization. Therefore, it can deduce that element of improvisation is associates with the external factors in which the competitive intensity, technological and market turbulence possess the capability to affects organizational improvisation.

Referring to Hmieleski, Corbett and Baron (2013) in their findings, they suggests that improvisational behavior can be an effective form of entrepreneurial action which is react to unpredictably shifting environment. In the context of stable environments, it is evidence that entrepreneur's improvisational behavior is positively associated with entrepreneur's performance that is high in optimism as a key dispositional characteristic and dynamism as a key environmental variable (Hmieleski, Corbett, & Baron, 2013).

From the gaps of interlink between environmental factors and improvisation, it is important to shed the light whether these factors have a significant relationship with organizational improvisation. Due to limited evident proves the study on this link; therefore it is hypothesized as below:

H1: Organizational resources have positive significant relationship with improvisation

H2: Environmental turbulence has positive significant relationship with improvisation

3. Research Methodology

Based on the problems and issues that arise in this study, the study can be classified as descriptive study which attempts to outlined systematically, about the problem, situation,

phenomenon, programme, and demonstrate attitudes against the issues (Kothari, 1985). This study was conducted amongst a random sample of SMEs manufacturing firms in northern region of Malaysia includes Perlis, Kedah, and Penang. Besides that, in order to get details about the SMEs in northern region, the researchers obtained the directory of Malaysian SMEs organization from SME Corporation website. For this study, a total of 106 questionnaires were successfully collected by the researchers.

The following Table 2 indicates the measures of the study variables used in the study. The instrument items were adopted from previous studies by Vera and Crossan (2005), Barney (1991), and Jawoski and Kohli (1993); Moorman and Miner (1997); Akgun *et al.* (2007). A Likert's Five Point Scales was used in this study for each section in the questionnaires.

4. Findings and Discussion

A total of 106 samples of the respondents' data were used to make an analysis by using multiple regression analysis. The population in this study only covered the SMEs located at northern region which is focused on manufacturing firms only. The target population is the entrepreneurs or managers or top management of the SMEs which represents their organization to answer the questionnaires. Data analysis for this study is conducted via the usage of Statistical Package SPSS Version 21. The hypotheses testing would be performed to decide whether to accept or reject the hypotheses. For this analysis, four hypotheses were tested to examine the effects of independent variables towards the dependent variable.

Table 3: Multiple Regression Analysis (N=106)

Environmental Factors and Organizational Improvisation	Variables	Hypotheses	Performance (β)
Independent Variables	Internal Factors and	H1	0.530*
Statistic Summary	Organizational Improvisation on SMEs of Manufacturing		
	Tangible Resources	H1a	0.397*
	Intangible Resources	H1b	0.208*
	External Factors and	H2	0.250*
	Organizational Improvisation on SMEs of Manufacturing		
	R ²		0.543
	F		40.427
	P		0.000 ^b

P* < 0.05, p** < 0.01

Collectively, the results of the multiple regression analysis explained that R Square value is 0.543. This indicated that 54.3% of variance that describe organizational improvisation on SMEs was accounted to the internal and external environment factors where the F value = 40.427 and significant value is 0.000 ($p < 0.05$). Therefore, an overall hypothesis are accepted and shows that there is a significant positive effect of internal and external factors towards organizational improvisation of SMEs of manufacturing in northern region. For individually, all of the hypotheses

are accepted with the significant value $H1 = 0.000$ ($p < 0.01$), $H1a = 0.001$ ($p < 0.01$), $H1b = 0.007$ ($p < 0.01$), and $H2 = 0.028$ ($p < 0.05$). In other word, it means that the internal environmental factors (tangible and intangible resources) and external environmental factors (market turbulence, technological turbulence, and competitive intensity) have significant effects on organizational improvisation of SMEs manufacturing.

The finding of this research reveals that the organizational resources affect incidence of improvisation in the workplace. This means that the stronger the resources of the corporation, the higher the tendency of organizational improvisation; which accept hypothesis 1. There are number of antecedents that look at the effect of organizational measures on the incidence of improvisation in prior studies. However, the tangible resources that lead to improvisation are still unclear as previous scholars much focus on the intangible factors of individual and organizational characteristics. For example, some empirical evidence on experimental culture (Cunha *et al.*, 2003; Leybourne & Sadler-Smith, 2006) and goals (Cunha, Cunha, & Kamoche, 1999; Akgün & Lynn, 2002) that promotes the incidence of improvisation. Therefore, the finding of this study is novel as it proves that both tangible and intangible resources lead to organizational improvisation.

Hypothesis 1a confirmed that the capital, cash, premise, investment and land are the tangible resources that have the positive significant relationship with organizational improvisation. Goals, culture, company reputation, and organizational knowledge as the intangible resource, as hypothesized in hypothesis 1b have also demonstrated the positive significant link to the incident of improvisation. The combination of all resources demonstrate that in creating or responding something new and useful in an unplanned situation, the organization would have to be counted the significant of its organizational resources.

As hypothesized in hypothesis 2, the finding of this study demonstrates that there is a positive significant relationship between environmental turbulent and improvisation in SMEs. This result thus supports previous studies that prove the positive effect of environmental factors to improvisation. Though some prior research confirmed the moderating effect of environmental turbulent between improvisation and firm performance (Arshad, 2011), however, this study has established that there is a direct link between both variables. This scenario could thus depict the proclamation by Markides and Geroski (2004) that it appears the capability of the SMEs to quickly create the incidence of organizational improvisation when the effect of market shifts, technological turbulence and competitive intensity are performed.

The reason of most organizational is concerning with the external environment is due to gain the competitive advantages. External environmental conditions are able to be more challenging for entrepreneurs specifically in strategic decision making. With regards to this phenomenon, entrepreneurs or top management must be able to make fast moves and usually apply creative modifications (which incur the improvisational activities) to their business in dynamic industries in order to survive (Mullin & Komisar, 2009) and adapt with changing environment. This finding is also supports Hmieleski, Corbett and Baron (2013), which suggest that improvisational behavior can be an effective form of entrepreneurial action which reacts to unpredictably shifting environment.

5. Conclusion and Future Recommendation

This research has sought to reveal the positive significant link between resources, environmental factors and incidence of improvisation in SMEs. First, the results should not to be generalized to contexts far outside of that considered here, that is, SMEs in northern region of Malaysia. This study is deemed among the early study as an initiative taken to be tested in the context of SMEs in

emerging economies; though it is only has been tested in a narrow scope. Future research should consider extending this study to the bigger sample which can be representable and generalizable.

In this study, organizational improvisation is appeared to be significance in the business activity. The data allow us to investigate the elements of improvisation, which basically focus on creativity and spontaneity in convergence of design and execution. Secondly, this study proves that in examining the improvisational activities, the factors from inside and outside organization should be scanned and counted. The positive significant link between internal resources, (tangible and intangible resources) external factors (technological and market turbulent and competitive intensity) and organizational improvisation have evidently confirmed in this study. Thirdly, this research has confirmed that the tangible resources such as capital, cash, investment, premise and land are the factors that contribute to the improvisational activities of the firms. Future research should consider of other determining factors of tangible resources such as resource liability in which could diminish the organizational improvisation. Fourthly, other determinant factors of intangible resources should also need to be considered in influencing the improvisational activities. Though this study focuses more on goals, culture and knowledge, however these elements are only touch in general. The in depth study on each element need to be investigated in the future in order to show the significant of each variable to organizational improvisation. For example, the tacit and explicit knowledge, flexible structure, absorptive capacity and so forth are some elements that should be studied in the future. Lastly, the finding of the relationship between the external factor and organizational improvisation has also revealed in this study. Environmental turbulence (technology, market and competitive) which is representing the external factors were used in this study. Other external factors might relevant in the future to be studied with organizational improvisation.

In conclusion, this study proved that internal and external forces are important to influencing the organizational improvisation on SMEs in northern region of Malaysia. Thus, the practitioners as well as management in organization should emphasize the importance of internal and external factors as the antecedent factors toward organizational improvisation. This consideration of organizational creativity and spontaneity with external and internal forces would thus lead to purge or lessen the stereotypes image of SMEs and it progressively reestablishes the efforts by management to enhance the number of customers, encourage cash inflow and outflow, expand marketplace, and improve the resources management system in organization.

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